

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 8/28/2012

GAIN Report Number: NL2026

EU-27

Livestock and Products Annual

Restructuring Leads to Efficiency

Approved By:

Mary Ellen Smith

Prepared By:

Bob Flach

Report Highlights:

The EU cattle herd is forecast to shrink, and with the lower availability of animals, also the calf crop, slaughter and beef exports are expected to fall. While the EU cattle sector is looking for its low point, the EU swine sector is expected to emerge from the restructuring in 2012. Pork exports are expected to continue to expand in 2012, and in 2013, a close to record pork production will possibly boost exports to a new all time high.

Executive Summary

Cattle & Beef - A shrinking sector is looking for its low point.

Increasing input costs and phasing out of government support is causing a further contraction of the EU cattle herd. Another factor is the increased efficiency mainly in the dairy sector. With the lower availability of cows, the calf crop is expected to decline during 2012 - 2013. Due to the lower crop, exports of live animals, slaughter, beef production, and beef exports will all decrease. Despite the dwindling domestic supply, beef imports are expected to stagnate at around 360,000 MT. Reasons are the lower supply in South America as well as the economic recession in Europe. Imports of high quality beef from mainly the United States, however, have increased strongly since the introduction of a zero duty quota in 2009. The dairy cow herd is forecast to increase in Ireland and Germany, while an increase in the beef cow herd is anticipated in several Central European Member States. The forecast of a recovery of production and herd size in these countries is based on the anticipation of firm output prices, and increased efficiency and competitiveness of the sector.

Swine & Pork – *The* sector is expected to emerge from the restructuring in 2012.

A significant number of swine farmers is forecast to exit the business as stringent environmental and welfare regulations are causing a restructuring of the sector in 2012. The falling trend of piglet production and slaughter is forecast to end after the regulations have been enforced in January 2013, and theoretically the restructuring has been completed. On that date, the number of sows is expected to have increased, the first time since 2006. Furthermore, the sector is likely to be more efficient and competitive. Improved feed efficiency and firm output prices are expected to counter the high feed prices during the 2012 / 2013 crop season. Based on a minor expansion of the sow herd and further improvement of the piglet sow ratio, the EU pig crop is estimated to increase by 3 million head in 2013, and pork production to increase close to a record level. Even at the temporarily lower pork production levels in 2012, exports are anticipated to expand. Exporters are benefitting from the increased demand for pork in Russia and China and the low value of the Euro and Danish Kroner. In 2013, elevated production, decrease in domestic demand and growing demand in Asia is forecast to further support exports to a new record level of 2.42 million MT.

Policy

- -The reform of the Common Agricultural Policy in 2014 is likely to decrease direct payments to farmers, especially for animal production. While some compensatory payments may be initiated through an enhanced Pillar II, a decrease in margins for meat producers must be anticipated.
- -On July 4, 2012, the European Parliament adopted a resolution in support of the new EU Animal Welfare Strategy 2012-2015. It encouraged the European Commission to better enforce existing animal welfare (AW) legislation, to further expand AW legislation based on sound science and to pursue inclusion of AW standards in the international arena and in all its bilateral trade agreements.
- -On August 1, 2009, the EU opened a zero-duty quota for 20,000 MT of high quality beef. On August 1, 2012, the quota will be increased from 20,000 MT to 45,000 MT. For the first three years, the quota was controlled by issuing import licenses on a monthly basis. On July 1, 2012, the European Commission changed the quota management system to a first come, first served approach.

Cattle

Country	EU-27					
Commodity	Animal Numbers, Cattle (1,000 Head)					
	USDA Official [EU-27]	Posts estimates [EU-27]	USDA Official [EU-27]	Posts estimates [EU-27]	USDA Official [EU-27]	Posts estimates [EU-27]
Market Year	201	1	201	L2	20	13
Total Cattle Beg. Stocks	87,437	87,437	86,500	86,209	0	85,320
Dairy Cows Beg. Stocks	23,122	23,122	22,900	22,878	0	22,850
Beef Cows Beg. Stocks	12,306	12,306	12,180	12,101	0	12,040
Production (Calf Crop)	29,750	29,600	29,600	29,200	0	29,150
Extra EU27 imports	1	0	1	0	0	0
TOTAL SUPPLY	117,188	117,037	116,101	115,409	0	114,470
Extra EU27 exports	811	811	600	800	0	800
Cow Slaughter	11,850	11,872	11,650	11,675	0	11,600
Calf Slaughter	7,000	7,064	6,800	7,050	0	7,050
Total Slaughter	28,230	28,397	28,200	27,700	0	27,300
Loss	1,647	1,620	1,601	1,589	0	1,570
Ending Inventories	86,500	86,209	85,700	85,320	0	84,800
TOTAL DISTRIBUTION	117,188	117,037	116,101	115,409	0	114,470

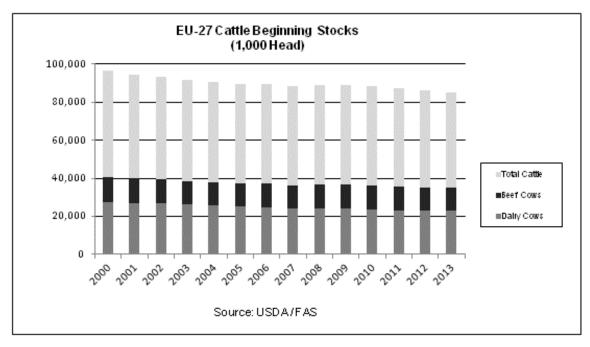
Not Official USDA data. Source: Eurostat and FAS Offices in the EU.

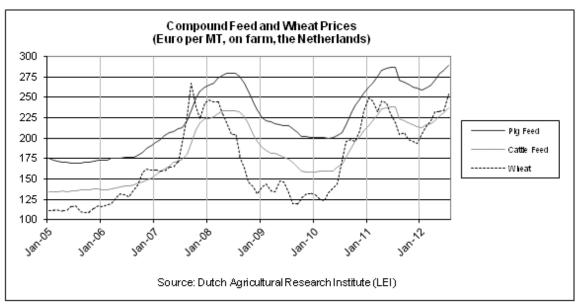
The cattle herd is getting smaller but more productive

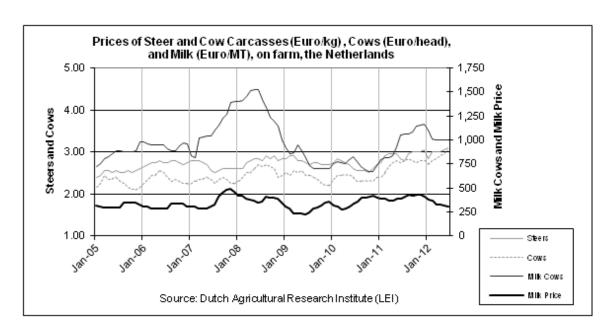
Since 2000, the EU cattle herd has been shrinking, with the exception of 2005 and 2007. During 2011 - 2013, the herd is projected to contract annually by respectively, 1.4, 0.9 and 0.5 percent. In absolute terms, the most evident cutbacks are projected in France, Germany and Romania. The herd contracts as a result of increasing input costs such as feed (see graph below), energy and credits, and phasing out of government support. As a result of Common Agricultural Policy (CAP) reforms, per head subsidies, slaughter premiums and dairy product price support schemes were phase out over the past five years (see Policy section). In Germany and Italy, competition for acreage with corn for biogas production is also negatively impacting the herd.

The dairy herd is also getting smaller due to the increased milk delivery per cow inside the dairy quota system. Increased productivity is achieved as smaller and less efficient farms with only a few cows are abandoning the sector. During 2011, dairy farmers collected relatively high milk prices (see graph below), but rising input costs and phasing out of support has put margins under pressure.

Better genetics and the fading effect of the Bluetongue Disease (BTD) are expected to increase the calf per cow ratio and lower losses during 2012 and 2013. Due to the lower number of cows, however, the calf crop is expected to decline. A stagnation or even expansion of the herd is expected in some countries. In 2013, the dairy cow herd is forecast to increase in Ireland and Germany, while an increase in the beef cow herd is anticipated in several Central European MS, but mainly in Poland. The forecast of a recovery of production and herd size in these countries is based on the anticipation of firm output prices, and increased efficiency and competitiveness of the sector. In Ireland, the dairy herd is forecast to continue to increase in size, driven by the Government's Food Harvest 2020 initiative to make the sector more market oriented after the abolishment of the milk quotas in 2015.







Shortage of supply tempers exports to third countries

During 2010 and 2011, EU cattle exports to Northern Africa and the Middle East increased significantly, in particular to Turkey. On July 2011, Turkey lowered the import tariff for live cattle countering the higher Turkish import tariffs for beef (see Beef Section). This year, EU cattle exports are forecast to stagnate as a result of lower availability of animals. The tight availability is expressed in rising prices for live cattle as well as for carcasses (see graph above). Another important factor is the closure of markets such as Russia and destinations in Northern Africa and the Middle East, in response to the Schmallenberg virus (SBV) outbreak, which effect will probably not be eliminated in 2013 (see GAIN Reports NL2003, NL2007 and NL2013). Cattle exports to Turkey have not been affected by the SBV outbreak and are expected to remain strong in 2012.

In 2011, slaughter levels were high due to the good demand for beef in Northern Africa and the Middle East and the dry weather conditions which decimated on-farm feed supplies. As a result of a tightening supply of animals, however, cattle slaughter is expected to decline in 2012 and 2013. Since 2005, the slaughter / cattle stock ratio has been between 32 and 33 percent. This ratio is expected to fall from 32.3 percent in 2011 to 32.1 and 32.0 percent in 2012 and 2013.

Calf crop production (Top 5 EU member states) 1,000 Head

	2011	2012	2013		
France	6,174	6,118	6,050		
Germany	4,220	4,212	4,190		
United Kingdom	3,100	3,199	3,200		
Italy	2,437	2,388	2,362		
Benelux	2,283	2,231	2,220		

Cattle slaughter (Top 5 EU member states) 1,000 Head

	2011	2012	2013
France	5,155	5,000	4,900
Italy	3,610	3,550	3,600
Germany	3,674	3,650	3,600
Benelux	2,910	2,880	2,880
United Kingdom	2,752	2,644	2,645

Beef

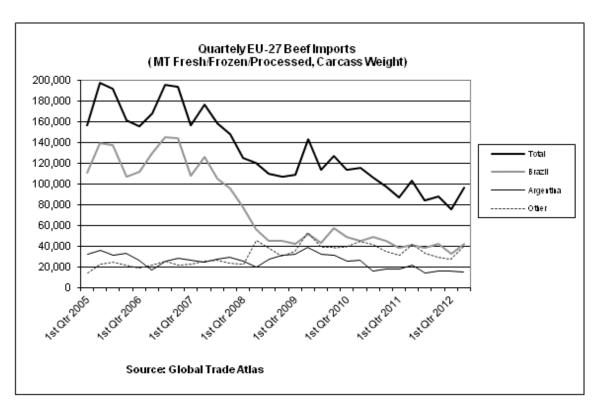
Country	EU-27					
Commodity	Meat, Beef and Veal (1,000 Head)(1,000MT CW)					
	USDA Official [EU-27]	Posts estimates [EU-27]	USDA Official [EU-27]	Posts estimates [EU-27]	USDA Official [EU-27]	Posts estimates [EU-27]
	20:	11	20	12	20:	13
Slaughter (Reference)	28,230	28,281	28,200	27,700	0	27,300
Beginning Stocks	0	0	0	0	0	0
Production	8,030	8,023	7,995	7,815	0	7,700
Extra EU27 imports	366	366	360	360	0	360
TOTAL SUPPLY Extra EU27 Exports	8,396 448	8,389 450	8,355 445	8,175 370	0	8,060 350
TOTAL Domestic Use	7,948	7,939	7,910	7,805	0	7,710
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	8,396	8,389	8,355	8,175	0	8,060

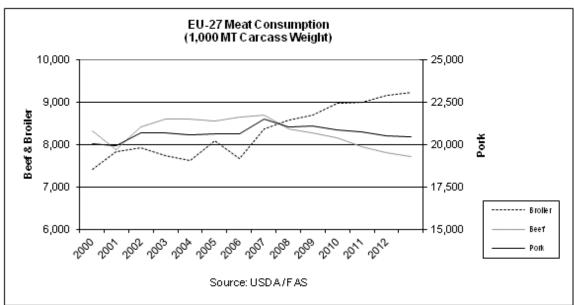
Not Official USDA data. Source: Eurostat and FAS Offices in the EU.

Domestic and import supply is forecast to remain limited

In line with lower slaughter numbers, EU beef production is expected to fall from nearly 8 MMT in 2011 to 7.7 MMT in 2013. At the same time, beef imports are expected to stagnate at around 360,000 MT in 2012 and 2013, which is a reduction of fifty percent of the volume reported in 2006. This is mainly due to the limited supply from South America (see graph below). According to traders, the high price level in South America, in combination with the EU import duty is pressing imports. Increasing price levels have been in particular cutting back imports of the lower valued frozen beef from Brazil. Imports of high quality beef from the United States and Australia have increased strongly since the introduction of a zero duty quota in 2009 (see Policy section). In 2011, U.S. beef exports to the EU totaled 16,200 MT (11,900 MT in 2010), with an estimated value of 186 million US\$ (113 million US\$ in 2010). U.S. high quality beef is favored by high-end customers, who value its flavor and marbling, and for whom cost is not an issue. Thus, it is most often available at luxury hotels, restaurants and gourmet shops and not likely to compete with the local EU beef market.

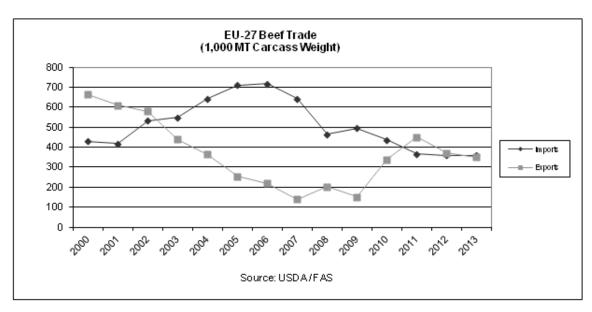
Besides limited supply from South America, another important factor for the lower beef imports is the weak EU demand as a result of the economic recession. The countries which have been hit the most by the financial crisis, namely Greece, Italy, Spain and Portugal, reported pronounced cuts in beef consumption during 2011. While in Germany, moderate growth in beef consumption continues in 2012 due to increased beef consumption out of home or as convenience product, such as beef patties and marinated beef to grill. At the expense of beef sales, broiler meat is gaining popularity due to its lower price, perceived health advantages and convenience (see graph below). In 2011, average retail prices in the Netherlands were; for poultry $5.69 \text{ } \ell\text{kg}$, for pork $6.64 \text{ } \ell\text{kg}$ and for beef $10.09 \text{ } \ell\text{kg}$ (source: Dutch Product Board for Livestock Meat and Eggs). The sum of beef, pork and broiler meat consumption is expected to decline further in 2012 and 2013, and stay well below the peak level reported in 2007.

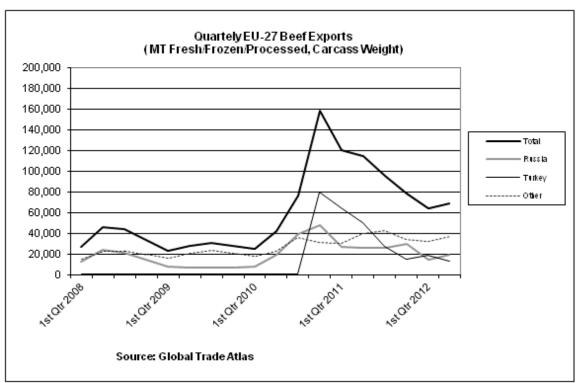




Limited domestic supply will curtail exports

In 2010 and 2011, EU beef exports were supported by good demand for beef in Turkey and Russia and limited supply from competitors in South America. The good demand in Turkey was caused by reduced import tariffs on beef between May 2010 and July 2011. Most beef has been sourced from Germany, Poland and the Baltic states. The increased exports to Russia and Turkey benefitted the sector by elevating prices for cattle and beef throughout Europe. Despite the good prospects for trade, EU exports are expected to fall or at least stagnate during 2012 and 2013. This forecast is based on the limited EU beef supply and resulting high price of the product.





Beef production (Top 5 EU member states) 1,000 MT

	2011	2012	2013
France	1,559	1,500	1,460
Germany	1,171	1,170	1,150
Italy	1,010	987	1,005
United Kingdom	935	902	900
Benelux	663	656	656

Beef consumption (Top 5 EU member states) 1,000 MT

	2011	2012	2013
France	1,569	1,535	1,510
Italy	1,412	1,373	1,387
United Kingdom	1,180	1,150	1,155
Germany	990	1,000	1,000
Spain	590	583	577

Beef exports (Top 5 EU member states) 1,000 MT

	2011	2012	2013
Poland	119	100	100
Germany	80	60	55
Italy	47	50	52
Benelux	30	29	29
Spain	19	21	22

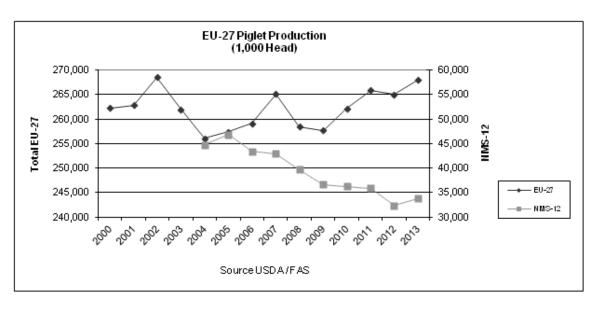
Swine

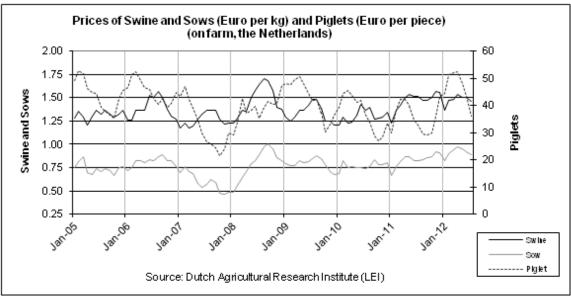
Country	EU-27					
Commodity		Animal Nu	mbers, Swine (1	,000 Head		
	USDA official [EU-27]	Posts estimates [EU-27]	USDA official [EU-27]	Posts estimates [EU-27]	USDA official [EU- 27]	Posts estimates [EU-27]
Market Year						
Begin	2011	•	2012	•	20	13
TOTAL Beginning Stocks	150,773	150,773	148,384	148,545	0	148,450
Sow Beginning Stocks	13,534	13,534	13,086	13,092	0	13,100
Production (Pig Crop)	263,200	265,870	261,000	265,000	0	268,000
Extra EU27 imports	1	1	1	2	0	2
TOTAL SUPPLY	413,974	416,644	409,385	413,547	0	416,452
Extra EU27 exports	1,582	1,583	1,400	1,400	0	1,400
Sow Slaughter	4,130	4,331	4,000	4,150	0	4,170
Total Slaughter	257,000	259,477	255,150	257,000	0	257,000
Loss	7,008	7,039	6,835	6,697	0	6,402
Ending Inventories	148,384	148,545	146,000	148,450	0	151,650
TOTAL DISTRIBUTION	413,974	416,644	409,385	413,547	0	416,452

Not Official USDA data. Source: Eurostat and FAS Offices in the EU.

A temporary revival of the EU swine sector in 2011

In this report, slaughter is revised about 2.5 million head higher based on a revision of official commercial and back yard slaughter figures. The pig crop is adjusted to a higher level accordingly. In 2011, the sector reached the top of the pork cycle as demand for piglets was supported by the highest carcass prices since 2008 (see two graphs below).





Stringent regulations are causing a restructuring of the sector in 2012

A large percentage of pig farms do not yet comply with EU environmental and animal welfare requirements entering into force in 2013 (see Policy section). As margins have been tight since 2007, farmers have been reluctant to invest in their farms, and a significant number of farmers is forecast to exit the business. The compliance of farmers with new EU animal husbandry requirements differs per EU Member State from about fifty percent to almost fully compliant: France (50%), Portugal (50%), Spain (65%), Denmark (70%), the Netherlands (80%), and the Czech Republic (95%). Some Member State Governments have set up tentative programs to support farmers in the adjustment of their farm operations and management. A third of the Dutch pig farmers are reportedly interested in following a tentative program to comply with environmental regulations by which they can continue farming until 2020 without major investments. Measures are for instance low protein feed, reduction of the number of swine or simple construction measures regarding the treatment or storage of manure.

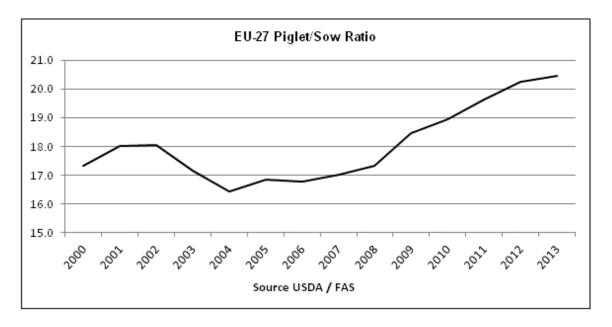
Based on official Eurostat census figures the EU sow stock has been cut by 3.3 percent during 2011. With a lower breeding stock available, cuts in the 2012 pig crop are expected in particular in Poland and to a lesser extent in Germany, Denmark, France and the Czech Republic. The Polish industry faces a historical drop in swine inventories resulting from inefficient structure of production, high feed costs and continuing strong competition from Dutch and Danish suppliers of both piglets

and pork. The data of swine numbers in member states show a growing disparity between the former EU15 and New Member States (NMS), see graph above.

In Germany, the high cost for feed as well as new animal welfare and environmental requirements led to higher production costs. A number of German farmers will drop out of business, mainly smaller farms with less than 200 sows will quit. At the same time, it's becoming increasingly difficult to get permits to build or enlarge production sites. The Danish production forecast depends on the number of producers that will chose to quit their production rather than make the necessary investments to comply with the new EU legislation. The Danish pig industry is relatively well prepared but expectations are also here that mainly the smaller producers will quit. In France, the implementation of animal welfare regulations will only speed up the trend of a three percent decline in sow numbers. In the Czech Republic, the production is cut significantly in 2012, but the crop is expected to recover in 2013 based on the high compliance of the sector. The pig crop is forecast to increase in Spain, Ireland and Austria this year. In Spain carcass prices are supported by surging exports of pork to China.

The restructuring of the EU swine sector implies closure of the most inefficient commercial farms throughout the EU. As a result, the piglet per sow ratio is expected to improve further at about the same rate as reported in 2011 (see graph below). For that reason, the total pig crop is forecast to decline only marginally despite the significant cut in the breeding stock. Despite grain and feed prices are expected to remain on a high level during 2012 and the first half of 2013 (see FAS Grain & Feed updates), fatteners generally achieve positive margins as feed prices are only slightly higher than reported during 2011, while carcass prices have improved.

Exports of live swine are forecast to be on a low level in 2012 and 2013. Exports of piglets, slaughterhogs and breeding animals to Russia have been restricted since April 2012.



A revival of the sector is anticipated in 2013

The falling trend of production and slaughter is forecast to end after the environmental and welfare regulations have been enforced in January 2013, and theoretically the restructuring has been completed. By the end of 2012, the number of sows is expected to have increased, the first time since 2006. Furthermore, the sector is likely to be more efficient and competitive. A revival of the sector and increase of production is forecast to take mainly place in Poland, Spain and the United Kingdom, and in lesser extent in the Benelux countries, Ireland and Austria. While in Germany, Denmark and France, further cuts in production and slaughter are expected in 2013.

Despite the anticipation that feed prices will remain on a high level, margins are expected to be generally positive as the least efficient farmers have quit and hog prices are forecast to stay at a high level. Also, during the coming decade the increased demand for sustainable or locally produced pork production is expected to increase farmer margins and benefit the

competiveness of domestically produced pork relative to imported pork. Based on a minor increase of the number of sows and further improvement of the piglet per sow ratio, EU production is expected to increase with 3 million head in 2013. Slaughter is forecast to remain on the same level, however, as the major peak in production is projected to occur in the second half of the year.

Pig crop (Top 5 EU member states) 1,000 Head

	2011	2012	2013
Germany	49,804	48,340	47,277
Spain	43,608	44,021	44,516
Benelux	36,775	36,550	36,650
Denmark	30,200	29,300	28,700
France	25,078	24,800	24,223

Swine slaughter (Top 5 EU member states) 1,000 Head

	2011	2012	2013
Germany	59,740	59,000	58,000
Spain	42,073	42,500	43,000
Benelux	26,490	26,600	26,400
France	24,700	24,300	24,000
Denmark	20,926	20,000	19,800

Pork

Country	EU-27					
Commodity	Pigmeat (1,000 Head)(1,000 MT CW)					
	USDA Official [EU-27]	Posts estimates [EU-27]	USDA Official [EU-27]	Posts estimates [EU-27]	USDA Official [EU-27]	Posts estimates [EU-27]
Market Year Begin	20:	11	20:	12	20	13
Slaughter (Reference)	257,000	259,477	255,150	257,000	0	257,000
Beginning Stocks	0	0	0	0	0	0
Production	22,750	22,938	22,615	22,750	0	22,850
Extra EU27 imports	18	18	15	18	0	18
TOTAL SUPPLY	22,768	22,956	22,630	22,768	0	22,868
Extra EU27 exports	2,204	2,202	2,125	2,280	0	2,420
TOTAL Domestic Use	20,564	20,754	20,505	20,488	0	20,448
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	22,768	22,956	22,630	22,768	0	22,868

Not Official USDA data. Source: Eurostat and FAS Offices in the EU.

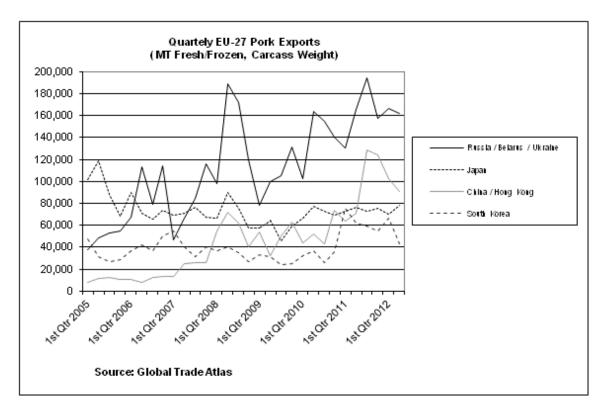
Domestic supply of pork is expected to tighten this year

In line with the higher slaughter numbers reported for 2011, pork production and domestic use are adjusted accordingly. The updated figures reveal that the EU swine sector, commercial and back yard, produced a record volume of almost 22.9 million MT of pork last year. Despite firm and elevated feed prices, in most countries slaughter hogs are expected to be slaughtered

at a higher weight in 2012 and 2013. This has been a long term trend and is partly a result of progression in genetics. However, higher slaughter weights will not fully compensate for the lower slaughter this year, and pork production is forecast to decline. The most significant cuts in pork production are expected in Poland, Denmark, France and Germany. Lower supply raised carcass prices to the highest level since 2008 and significantly affected domestic pork consumption. The slack in consumption is most pronounced in regions with the highest production cuts; Central Europe and particularly in Poland.

Production is expected to recover in 2013, with exports rising to a record level

Despite lower pork production, exports are expected to further increase in 2012. Pork exporters are benefitting from increased demand for pork in Russia and China and the low value of the Euro and Danish Kroner against the currencies of important competitors (United States and Canada) and customers (Russia, China and Hong Kong). Both to Russia and China, the main European suppliers are Germany, Denmark and Spain, of which Spain has shown the strongest growth in the first half of 2012. There are seventeen Spanish companies authorized to export to China. Spanish pork exports are concentrated on fresh meat although the protocol signed with China also allows for exports of cured boneless meat. Spain is negotiating to also include other meat products in the protocol. EU Member States eligible to export directly to China are France (since 2006), Denmark (2007), Spain (2009), Germany (2009), the Netherlands (2010), and Poland (2012). While the sector is optimistic about exports to China, trade to other countries is believed to remain relatively static. EU pork exports to South Korea are not expected to grow in 2012 and 2013 as Korean production is currently recovering from the Foot and Mouth Disease outbreaks in 2011. Elimination of export restitutions for pork by the European Commission on April 20, 2012, is not expected to significantly decrease competitiveness of European pork on third markets. At the same time, the WTO accession of Russia is not expected to significantly improve trade to this market. In 2013, increased slaughter and higher slaughter weights are forecast to result in a recovery of production close to the record level reported in 2011. Elevated production, slacking demand by European consumers and growing demand in particular in Asia is forecast to further support exports in 2013 to a new record level of 2.42 million MT.



Pork production (Top 5 EU member states) 1,000 MT

rok production (10p 3 to member states) 1,000 M						
	2011	2012	2013			
Germany	5,620	5,600	5,550			
Spain	3,479	3,600	3,650			

Benelux	2,465	2,472	2,453
France	1,995	1,965	1,950
Denmark	1,718	1,650	1,630

Pork consumption (Top 5 EU member states) 1,000 MT

	2011	2012	2013
Germany	4,550	4,517	4,500
Italy	2,698	2,705	2,712
Spain	2,248	2,250	2,220
Poland	2,144	1,900	1,850
France	1,860	1,856	1,846

Pork exports (Top 5 EU member states) 1,000 MT

	2011	2012	2013	
Denmark	479	500	500	
Germany	410	430	450	
Spain	291	291 350		
Poland	228	240	250	
Benelux	246	250	245	

Policy

Impact of the upcoming CAP reform

The reform of the Common Agricultural Policy (CAP) in 2014 is likely to decrease direct payments to farmers, especially for animal production. Any remaining coupled payments will cease, except possibly the suckling premium for beef cattle. While some compensatory payments may be initiated through an enhanced Pillar II, a decrease in margins for meat producers must be anticipated. As the decrease in support to arable crop farmers is likely to increase grain prices and thus feed prices, also an indirect effect is anticipated. The European Commission cast a picture for the future of EU farming in its December 2011 "Prospects for Agricultural Markets and Income in the EU 2011–2020".

Zero-duty High Quality Beef quota

Zero-duty High Quality Beef quota upgraded (See GAIN Report E70024)

On August 1, 2009, the EU opened a zero-duty quota for 20,000 MT of high quality beef (HQB) from cattle raised under strict feeding requirements, without the use of growth hormones. The basis for this HQB quota is a Memorandum of Understanding (MOU) between the United States and the European Union, made as a compromise solution to a WTO dispute settlement case which the United States won in 1998. While this HQB quota is ergo omnes, with five countries currently qualified to participate, the quota was primarily installed for U.S. HQB to enter the EU market (for more information see Beef section).

In accordance with the provisions of the MOU, the zero-duty HQB quota moved to Phase II on August 1, 2012, with the annual quota amount increased from 20,000 MT to 45,000 MT. This increase was earlier approved by the European Parliament and Council and published in the Official Journal of June 8, 2012. Canada also has an MOU with the EU for zero-duty HQB, resulting from its WTO dispute settlement case which was resolved in early 2012. The Canada MOU made a further 3,200 MT of HQB at zero duty available as of August 1, 2012, thus bringing the total available amount to 48,200 MT

First Come, First Served Quota Management

For the first three years of the MOU, the zero-duty HQB quota was managed through import licenses on a monthly basis. In an effort to address complaints and find a more equitable approach to quota access, the European Commission changed the quota management system for the MOU from import licenses to a first come, first served (FCFS) approach in Commission Implementing Regulation (EU) No 481/2012, which was published in the Official Journal of June 8, 2012. Under the FCFS quota management, which took effect on July 1, 2012, the zero-duty HQB quota is available in quarterly increments rather than monthly. Thus, the available amount for the current quarter is 9,825 MT, which includes adjustments for the increased quota volumes that took effect on August 1, 2012. The quota amount for the subsequent quarters in the 2012/13 quota year will be 12,050 MT.

The future housing requirements for swine

By January 1, 2013, the EU swine sector will need to comply with additional environmental (Council Directive 2008/1/EC) and animal welfare regulations (Council Directive 2001/88/EC). Council Directive 2008/1/EC sets limits on the ammonia emission of livestock farms and in many cases will require adjustments in animal husbandry and/or investments in air treatment systems. Council Directive 2001/88/EC imposes specific requirements for the housing of pigs related to animal welfare such as introduction of group housing for sows, and the expansion of the living area for weaned piglets and fattening pigs. The European Commission will reportedly not grant any subsidies or transition programs for the implementation of the animal welfare regulations as the directive provided more than a decade to transition.

Animal welfare situation

The issue of animal welfare is expected to continue to affect the intensive livestock sector in the EU, and potentially trade with the EU. NGO's have gathered over 1.1 million signatures to demand that the European Commission (EC) proposes a change to Regulation (EC) No 1/2005 to limit the travel time for all farmed animals to eight hours. This initiative is in response to a Commission report on the impact of Council Regulation (EC) No 1/2005, which was published in November 2011. The main conclusion of this report focused on the poor and different levels of enforcement of this regulation in Member States (MS).

On July 4, 2012, the European Parliament (EP) adopted a <u>Resolution</u> in support of the new <u>EU Animal Welfare Strategy</u> <u>2012-2015</u>. In particular, this EP resolution deplores the lack of enforcement of existing animal welfare (AW) legislation in different MS, calls on the Commission to present a proposal for a broad European AW Framework Law based on validated science, and encourages the Commission to promote AW standards in the international arena and all EU bilateral trade agreements. For more info on the EU Animal Welfare Strategy 2012-2015, see GAIN Report E70025.

Animal health situation

The Schmallenberg virus (SBV), which was first discovered in November 2011 in Germany, continued to expand in Europe during the summer of 2012. While SBV is spread by Culicoides midges, as was Bluetongue type 5 (BT-5) from 2008 to 2010, the economic impact of the SBV outbreak on EU livestock farming seems less severe as mortality rates are much lower. In May 2012, the European Food Safety Authority (EFSA) presented its report on the epidemiology of SBV, as well as an analysis of the epidemiological data. Fears exist that with the further spread of the virus during the summer of 2012, the impact on EU cattle trade might be greater in 2013. Further info is available in GAIN Reports NL2003, NL2007 and NL2013 and at the EU webpage on SBV. The following countries imposed import restrictions on live cattle from the EU: Russia, Kazakhstan, Belarus, Ukraine, Egypt, Kuwait, Lebanon, Jordan, United Arabic Emirates, Algeria and Morocco.

DISCLAIMER

The numbers in the PSDs in this report are not official USDA numbers, but they result from a collaborative effort by FAS EU offices to consolidate PSDs from all 27 EU member states.

This report is the result of active collaboration with the following EU FAS colleagues in the following member states:

Xavier Audran from FAS Paris covering France

Ornella Bettini from FAS Rome covering Italy and Greece

Mila Boshnakova from FAS Sofia covering Bulgaria

Monica Dobrescu from FAS Bucharest covering Romania

Bob Flach from FAS The Hague covering the Benelux

Diogo Machado from FAS Madrid covering Portugal and Spain

Steve Knight from FAS London covering the United Kingdom and Ireland

Roswitha Krautgartner from FAS Vienna covering Austria

Leif Rehder from FAS Berlin covering Germany

Jana Mikulasova from FAS Prague covering the Czech Republic and Slovak Republic

Ferenc Nemes from FAS Budapest covering Hungary and Slovenia

Yvan Polet from FAS Brussels / U.S. Mission to the EU

Piotr Rucinski from FAS Warsaw covering Poland, Estonia, Latvia and Lithuania

Asa Wideback from FAS Stockholm covering Denmark, Finland and Sweden

NOTE

In this report the following HS codes and conversion factors are used:

	HS codes	Conversion factors
Beef	0201, 0202	PWE X 1.40 = CWE
	021020, 160250	PWE X 1.79 = CWE
Pork	0203, 021011, 021012, 021019, 160241, 160242, 160249	PWE X 1.30 = CWE

PWE = Product Weight CWE = Carcass Weight

ABBREVIATIONS

EC: European Commission

EU: All twenty-seven Member States of the European Union. EU-15: All twenty-seven Member States of the EU minus the NMS.

MS: An EU Member State

NMS: The twelve new Member States which joined the EU in May 2004 and

January 2007.

NMS-2: Romania and Bulgaria, which joined the EU in January 2007.

Benelux: Belgium, the Netherlands and Luxembourg

Related reports from FAS Post in the European Union:

Country	Title	Date
Germany	Anthrax outbreak in cattle herd in Germany	07/24/12
EU-27	EU Launches Animal Welfare Strategy 2012-2015	06/28/12
EU-27	Changes to the EU High Quality Beef Quota Published	06/19/12
France	Ritual Slaughtering and Presidential Elections	04/13/12
EU-27	Update of the Schmallenberg Virus Outbreak in the EU	04/05/12
EU-27	Update on Schmallenberg virus (SBV)	03/08/12
EU-27	Update of the Schmallenberg Virus Outbreak in the EU	03/01/12
EU-27	EU-27 Livestock Semi-annual 2012	03/01/12
EU-27	Update of the Schmallenberg virus outbreak in the EU	02/27/12
EU-27	Sustainability in the EU Commodity Markets	02/03/12
EU-27	Schmallenberg virus found in cattle	02/03/12
Italy	Italian Livestock and Products Outlook 2012	01/30/12
EU-27	EU reviews Regulation on Animal Welfare during transportation	12/21/11
Romania	EU lifts the export ban of Romanian pork	12/07/11
Czech Republic	Czech Agricultural Census 2010 Confirms the Largest Farm Size	12/09/11
Germany	Stricter Control On Antibiotics In Animal Husbandry	11/14/11
Poland	Increased Demand for U.S. Bovine Genetics in Poland and Baltic Countries	11/08/11

The GAIN Reports can be downloaded from the following FAS website:

$\underline{http://gain.fas.usda.gov/Pages/Default.aspx}$

-For additional livestock market related information, please contact:

Bob Flach (FAS The Hague)
Phone: ++31 70 310 2303

E-mail: bob.flach@fas.usda.gov

-For additional livestock policy related information, please contact:

Yvan Polet (FAS Brussels U.S. Mission to the EU)

Phone: ++32 2 811 4095

E-mail: yvan.polet@fas.usda.gov